

January 13, 1997

Introduced By: Ron Sims

97levy.ame/lt 1/10/97

Proposed No.: 97-0035

ORDINANCE NO. **12613**

A SUBSTITUTE ORDINANCE relating to levying
the property taxes of King County for the
year of 1997 and amending Ordinance 12567,
Section 2.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

SECTION 1. Ordinance 12567, Section 2, is amended to read as
follows: The Council of King County, Washington, finds that the
levies necessary to fund estimated expenditures for the year 1997,
less the total of estimated revenues from sources other than
taxation, including available surplus and such expenditures as are
to be met from bond warrant issues, be and the same are hereby
fixed as follows:

TAX LEVY - 1997

<u>FUND</u>	<u>TAX</u>
COUNTY .	
CURRENT EXPENSE	\$ 154,284,588.00
HUMAN SERVICES FUND/MENTAL HEALTH	3,155,734.00
VETERANS' AID	1,420,080.00
RIVER IMPROVEMENT	1,950,000.00
INTER-COUNTY RIVER IMP.	50,000.00
BOND REDEMPTION - LIMITED	21,210,897.00
TOTAL	\$ 182,071,299.00
UNINCORPORATED COUNTY - ROADS	45,598,769.00
UNLIMITED G.O. BONDS	38,500,000.00
SPECIAL COUNTYWIDE EMS LEVY	31,570,596.00
CONSERVATION FUTURES	
LTD. BOND RED.	6,300,000.00
CONS. FUTURES CIP	1,589,334.00
AFIS	8,394,252.00
REGIONAL JUSTICE CENTER	31,407,581.00
TOTAL	163,360,532.00

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1	PORT	\$	35,646,106.00
2			
3	CITIES & TOWNS		
4	SEATTLE	\$	158,145,851.00
5	ALGONA		355,606.00
6	AUBURN		8,717,510.00
7	BEAUX ARTS		82,612.00
8	BELLEVUE		24,878,183.00
9	BLACK DIAMOND		130,159.00
10	BOTHELL		2,338,967.00
11	BURIEN		2,630,508.00
12	CARNATION		220,349.00
13	CLYDE HILL		529,900.00
14	DES MOINES		2,003,477.00
15	DUVALL		397,209.00
16	ENUMCLAW		1,444,134.00
17	FEDERAL WAY		6,181,703.00
18	HUNTS POINT		144,250.00
19	ISSAQUAH		2,361,411.00
20	KENT		16,339,732.00
21	KIRKLAND		8,806,695.00
22	LAKE FOREST PARK		1,791,743.00
23	MEDINA		1,286,096.00
24	MERCER ISLAND		7,072,108.00
25	MILTON		97,980.00
26	NEWCASTLE		1,597,991.00
27	NORMANDY PARK		977,689.00
28	NORTH BEND		528,843.00
29	PACIFIC		381,887.00
30	REDMOND		10,591,733.00
31	RENTON		14,374,187.00
32	SEATAC		6,874,084.00
33	SHORELINE		4,548,147.00
34	SKYKOMISH		36,310.00
35	SNOQUALMIE		342,880.00
36	TUKWILA		7,379,656.00
37	WOODINVILLE		1,523,183.00
38	YARROW POINT		274,865.00
39	TOTAL		295,387,638.00
40			
41	WATER AND SEWER DISTRICTS		
42	BRYN MAWR - LAKERIDGE		47,105.00
43			
44	FIRE DISTRICTS		
45	2	\$	3,215,205.00
46	4		4,484,626.00
47	10		6,351,342.00
48	11		1,632,093.00
49	13		1,333,636.00
50	14		729,416.00
51	16		2,131,273.00
52	17		198,988.00
53	20		896,761.00
54	24		7,647.00
55	25		839,788.00
56	26		1,477,839.00
57	27		359,643.00
58	28		436,715.00
59	31		28,276.00
60	34		3,161,630.00
61	36		4,012,320.00

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1	37	3,290,927.00
2	38	603,557.00
3	39	8,844,593.00
4	40	1,471,088.00
5	41	1,900,000.00
6	43	3,126,076.00
7	44	1,489,090.00
8	45	797,701.00
9	46	399,998.00
10	47	74,341.00
11	50	116,257.00
12	51	29,944.00
13	TOTAL	53,487,875.00
14		
15	MISCELLANEOUS	
16	RURAL LIBRARY	43,661,161.00
17	HOSP 1	2,448,461.00
18	HOSP 2	7,757,806.00
19	HOSP 4	1,635,169.00
20	CEMETERY 1	68,150.00
21	VASHON MAURY PARKS	388,048.00
22	NORTHSHORE PARKS & REC	287,928.00
23	GREEN RIVER FLOOD ZONE	599,083.00
24	TOTAL	56,845,806.00
25		
26	SCHOOLS	
27	SEATTLE	\$ 130,882,335.00
28	FEDERAL WAY	28,400,000.00
29	ENUMCLAW	6,655,000.00
30	FIFE	793,844.00
31	MERCER ISLAND	10,314,749.00
32	HIGHLINE	24,739,223.00
33	VASHON ISLAND	3,681,280.00
34	RENTON	22,954,512.00
35	BELLEVUE	46,844,611.00
36	SOUTH CENTRAL	6,454,281.00
37	RIVERVIEW	5,164,966.00
38	AUBURN	22,063,000.00
39	TAHOMA	6,874,000.00
40	SNOQUALMIE VALLEY	7,571,680.00
41	ISSAQUAH	28,509,400.00
42	SHORELINE	24,507,385.00

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KENT	45,450,000.00
NORTHSHORE	29,822,086.00
TOTAL	498,882,352.00
GRAND TOTAL	1,285,728,713.00

INTRODUCED AND READ for the first time this 13th day of

January, 1997.

PASSED by a vote of 10 to 0 this 21st day of

January, 1997.

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Jane Hogue
Chair

ATTEST:

Donald G. Peterson
Clerk of the Council

APPROVED this 31 day of January, 1997.

Donald G. Peterson
King County Executive

January 15, 1997

Introduced By: Ron Sims

Proposed No.: 96-966

12614

ORDINANCE NO. 12614

1
2 AN ORDINANCE approving a plan to finance
3 the acquisition of office space for
4 county use by means of a lease;
5 authorizing the county executive to
6 negotiate such lease for approximately
7 310,000 square feet of office space in a
8 building to be located adjacent to the
9 King Street Station in the City of
10 Seattle, for a term not to exceed 20
11 years, with the aggregate principal
12 amount of lease payments not to exceed
13 \$65,550,000.

14 PREAMBLE:

15 The county council has determined that it is in the best
16 interest of the county and its residents that the county's
17 department of natural resources and department of
18 transportation be consolidated and housed in economical
19 office space in downtown Seattle.

20 The council has reviewed three proposals for providing such
21 office space to the county by means of a plan of lease-
22 financing. The council wishes to further develop the
23 proposal of Wright Runstad & Company to build an office
24 building adjacent to the King Street Station, to be known as
25 King Street Center, and to approve a plan of financing for
26 such proposal so that Wright Runstad & Company and the
27 executive may negotiate a lease agreement that would come to
28 the council for final approval.

29 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

30 SECTION 1. Findings. It is hereby found an
31 declared that the public interest, welfare and benefit
32 require the county to lease approximately 310,000 square feet

1 of office space in downtown Seattle for county use. The
2 council finds that the proposal of Wright Runstad & Company
3 ("Wright Runstad") to build an office building located
4 adjacent to the King Street Station in downtown Seattle to be
5 known as King Street Center, best satisfies the county's
6 requirements.

7 SECTION 2. Approval of Office Space Plan; Authorization
8 of lease negotiations.

9 The financing plan for acquiring office space for county
10 use, as described in the Office Space Plan ("the Plan")
11 attached as exhibit A hereto and incorporated herein by this
12 reference, is hereby given preliminary approval.

13 In accordance with the Plan, the executive is hereby
14 authorized on behalf of the county to negotiate a lease with
15 the National Development Council, a nonprofit corporation, or
16 a subordinate organization thereof ("the Nonprofit
17 Corporation"). The amount of lease payments shall not exceed
18 the amount required to pay principal of and interest on the
19 Bonds (as hereafter defined), and in any event the aggregate
20 principal component of such lease payments shall not exceed
21 \$65,550,000. Other terms and conditions of the lease shall
22 be in accordance with the criteria set forth in the Plan,
23 including, without limitation, the specifications for the
24 King Street Center, a maximum construction price of
25 \$60,300,000 from Wright Runstad, the MWBE developer goals,

1 and the provisions for management and oversight of the
2 project, and shall be subject to approval by the office of
3 the prosecuting attorney and bond counsel to the county as
4 appropriate.

5 The lease shall not be executed by the executive until
6 he is authorized to do so by ordinance.

7 INTRODUCED AND READ for the first time this 25th
8 day of November, 1996.

9 PASSED by a vote of 10 to 3 this 21st day of
10 January, 1997.

11 KING COUNTY COUNCIL
12 KING COUNTY, WASHINGTON

13 Joni Hugue
14 Chair

15 ATTEST:

16 Gerald A. Peterson
17 Clerk of the Council

18 APPROVED this 31 day of January, 1997.

19 Dorel A. Smith
20 King County Executive

21 Attachments:

This summary outlines the motivation, project structure, and material terms that the King County Executive will observe in negotiating a build-to-suit, lease-to-own office project with respect to Wright Runstad & Company's King Street Center proposal.

Motivation:

For ten years, King County has benefited from the substantial oversupply of downtown Seattle office space. Because of tremendous overbuilding in the 80's, Class A downtown rental rates were driven, and have remained, far below break-even expenses. (This market momentum has also dragged Class B rates lower.) The downtown Seattle office market has seen immense losses, numerous ownership restructures and/or bankruptcies, and dramatic writedowns on downtown office properties. Little new space has been completed since 1990. King County has exploited this market weakness with great effectiveness, leasing more than 500,000 square feet of mixed Class A and B office space at an average, fully serviced rate of \$13.50 per square foot.

This market is in the process of a dramatic change favoring landlords. Rental rates are rising rapidly in both Class A and Class B buildings. There is every indication that rising rates are in fact accelerating -- as downtown vacancy rates fall below 6.5%. Moreover, this vacancy rate understates the availability of large contiguous space required by the County (e.g., 50,000 square feet and up) -- with perhaps only one such space currently in the downtown market. Rates quoted today are above \$20.00 per square foot with a minimal tenant allowance of \$10.00 per square foot. Quoted rates will continue to escalate to the point that it makes economic sense for new construction to resume. Proposed buildings will require rental rates approaching \$30.00 per square foot before lenders will finance new development.

Using a build-to-suit, lease-to-own development structure, King County will replace a substantial portion of the 500,000 square feet of rented office space with "owned" space. The County should do this for three reasons.

First, it will save money. Under this plan, King County will fix its base rental at a price less than or equal to projected market rents for 1999. Thus, on a cash flow basis, King Street Center rent will probably remain under, and presumably cost no more than, renting at market rates. Moreover, the King Street Center will accumulate equity each year resulting in ownership at the end of the lease term. To the extent that market rents continue to escalate into the future while the County's base rent at King Street Center is fixed, greater savings will accrue. Second, by fixing base rental costs, budgeting projections will be far more reliable. Third, operationally it is important to physically consolidate the Department of Transportation and the Department of Natural Resources. The King Street Center project permits this consolidation and meets or exceeds operational criteria.

Project Structure:

1 2614

Outline

This proposal will utilize "63-20" financing for the transaction. Permitted by IRS Revenue Ruling 63-20 (compiled and supplemented by Revenue Procedure 82-26), this approach entails a not-for-profit corporation issuing bonds to finance a project utilized by a governmental entity. The interest on such bonds is tax-exempt if certain conditions are satisfied.

Here, the nonprofit entity will issue bonds and contract with the developer to build the King Street Center. The County will enter into a lease for the use of the project once it is completed to the County's satisfaction. The lease payments will amortize the bond debt. The nonprofit will use bond proceeds to make progress payments to the developer as construction proceeds. The nonprofit will own the project while the bonds are outstanding. In accordance with the requirements of Revenue Ruling 63-20, title to the property must transfer to the County when the bonds are paid off.

Parties & Roles

There are three principal parties involved in the structure of this proposal -- Wright Runstad & Company, the National Development Council, and King County.

Wright Runstad & Company will be the developer, pledging to construct and deliver a specified building at the King Street Center site for a not-to-exceed cost, assuming all construction risk. Wright Runstad & Company is a well known and highly respected developer of high rise and suburban office projects. The National Development Council (a not-for-profit acting on behalf of King County) will be the building owner and financier. The National Development Council is a not-for-profit corporation in business 30 years with an expertise in public/private financing structures. Two recent local projects include the Commodore Dutchess on behalf of the University of Washington (a 63-20 transaction) and the Fredrick and Nelson Parking Garage. King County will be the long term tenant -- and owner once the bonds are paid off.

With the advice and consent of King County, the National Development Council will take title to the property, obtain debt financing, contract with the developer for construction of the project, and thereafter become King County's landlord. King County will lease the project during the financing term (twenty years) on an absolute net basis and will take title at the end of the financing term.

King County's lease with the National Development Council will accomplish three primary purposes. First, it will incorporate all material specifications agreed upon between King County and Wright Runstad & Company describing the project to be built -- clearly defining the building that King County will move into upon completion. Second, it will describe all the terms and conditions between King County as lessee and National Development Council as lessor for the term of the lease. Finally, the lease will cause the

National Development Council to hire from time to time, with the County's advice and consent, professional property management companies to manage the property.

Material Terms:

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Site, Building, Approvals

Specifically, Wright Runstad & Company controls, by way of an enforceable purchase and sale agreement, a parcel of land next to the King Street Station just south of Jackson. They have proposed to build on behalf of King County an eight story building of approximately 310,000 square feet, including 304 parking spaces – i.e., the King Street Center. Seattle DCLU has conditionally approved this project as of October 31, 1996.

Design Specifications, Space Planning, Permits, Timing

A preliminary design for the building, along with outline building specifications has been proposed by Wright Runstad & Company and has been reviewed by DCFM staff. General agreement on systems and finishes quality levels has been reached, resulting in a "Class A" office building. Preliminary space programming and planning with the Departments of Transportation and Natural Resources has been completed, verifying that the project will accommodate the programmatic requirements of each.

Wright Runstad & Company is prepared to move into the Design Development and Construction Drawings phases of the project as soon as a final agreement is made. Wright Runstad & Company contemplates application for final building permits to occur in the summer of 1997; construction to begin in the fall of 1997; and delivery to take place in the spring of 1999. Flexibility exists to delay construction and delivery if found to be in the best interests of King County.

Particular issues that will require further development and/or negotiation during the Design Development phase include; type of heating, ventilation and air conditioning system to be installed; elevator specifications; data, phone and fiber optic cabling; electrical needs; open office furnishings; and use of recycled and environmentally-friendly products in design.

Maximum Financial Exposure, Shared Savings, Risks

Total costs to construct will be defined as a "not to exceed" figure of \$60,300,000 guaranteed by Wright Runstad & Company. Construction and development risk will be borne by Wright Runstad & Company. However, to the extent the project is delivered under budget, King County will participate in those savings with Wright Runstad & Company on a 75% to 25% basis, respectively.

Project Costs, Translation to Rent

Wright Runstad and Company has proposed base costs for land, shell and core, as well as a complete build-out for tenant improvements. Projected costs and totals are identified on the attached spreadsheet. In addition to the proposed land, shell, core, and

tenant improvements, there are additional costs. These include: open office systems furnishings, telecommunications wiring/cabling, financing costs, 1% for the Arts, King County project management, not-for-profit fee, construction period interest, and other capital costs.

King County's net lease payments will be a function of the total capitalized cost of the project, amortized over twenty years at the market interest rate on the date the bonds are underwritten. Operational expenses, repairs, and capital improvements will be in addition to net lease payments.

By way of example, if the total capitalized cost is \$65,550,000, the debt is for twenty years, the interest rate is 6.25%, and rent is paid bi-annually, then the annual net rent payment will be approximately \$16.00 per square foot before operational costs and after adjusting for parking and retail space revenues.

Finally, there will be a one time expense incurred in office furnishings and moving costs. These expenses are not part of the project plan. However, they represent a real cost projected to be approximately \$4,500,000. If amortized over 10 years at 5.5%, this requires additional debt service of \$591,046 per year; or approximately \$1.91 per square foot.

Women and Minority Business Enterprises

The MWBE component for this project will embody developer goals. These would include the developer identifying and articulating MWBE goals in the development of the King Street Center project.

Management and Oversight

Although it is promised as a "turn-key" project, King County DCFM will be involved through the Programming and Space Planning, Design Development, and Construction phases. The intent of the County is to provide its greatest input through the Programming and Space Planning and Design Development phases. All fundamental space planning and building specification issues will be resolved during this time. Once construction begins, the County will work hand in hand with the National Development Council to ensure the building is being constructed per specifications. A County DCFM Project Manager will be the primary conduit for evaluation of reports on construction issues. DCFM will also take the lead in evaluating final acceptance of the building.

Conclusion:

There is no question that if King County does not replace a substantial portion of its downtown rental office space with owned space, it will be costly and result in major operating inefficiencies. Implementing this proposed plan will result in an outstanding facility for King County with a minimum of risk. While the costs should not be minimized, in the long run ownership of King Street Center will be seen as an prudent and farsighted investment.

Analysis of NNN Rent
King Street Station

Assume Rentable Square Feet Revised 309,663
Original 305,000

20 Yr Rate	Original*	Revised**	All Costs Interest @	All Costs Interest @
	6.25%	6.25%	6.25%	5.75%
Base Construction	\$38,200,000	25,700,000	25,700,000	25,700,000
Land	\$8,000,000	8,000,000	8,000,000	8,000,000
Parking Floors	\$7,000,000	7,000,000	7,000,000	7,000,000
Tennant Improvements	\$8,100,000	8,300,000	8,300,000	8,300,000
Other Capital Costs		11,300,000	11,300,000	11,300,000
Total -- Cost to Construct	\$57,300,000	60,300,000	60,300,000	60,300,000
Telecommunications/Cabling			1,523,000	1,523,000
Efficiencies from Full Building TI's			(1,000,000)	(1,000,000)
Financing Costs			850,000	850,000
Non-Profit Fee			487,500	487,500
County Project Management			200,000	200,000
1% for Art***			250,000	250,000
Construction Period Interest		2,939,702	2,939,702	2,704,526
Total Capital Costs****	\$57,300,000	63,239,702	65,550,202	65,315,026
Required Annual Debt Service 20 Yr	\$5,058,545	5,582,812	5,788,887	5,537,741
Annual Parking Revenue @ Break Even	(617,972)	(653,593)	(653,593)	(624,989)
Retail Revenue	(180,000)	(180,000)	(180,000)	(180,000)
Required Annual Rent - 20 Yr	\$4,260,572	4,749,319	4,953,294	4,732,773
Required Annual Debt Service 25 Yr	\$4,581,688	5,056,601	5,241,346	4,981,022
Annual Parking Revenue @ Break Even	(559,715)	(591,978)	(591,978)	(562,140)
Retail Revenue	(180,000)	(180,000)	(180,000)	(180,000)
Required Ongoing Cap Cost 25 Yr	\$3,841,951	4,284,623	4,469,369	4,238,883
NNN Rent Per Sq Ft 20 Yr	\$13.97	15.57	16.00	15.28
NNN Rent Per Sq Ft 25 Yr	\$12.60	14.05	14.43	13.69
Furnishings & Move			4,500,000.00	4,500,000.00
County Debt Service Interest Rate (10 Yr. Amortization)			5.30%	5.50%
Required Debt Service			585,536	591,046
Rent Add for Furnishings/Move			1.89	1.91

Assumptions
All schedules assume semi-annual payments
*Construction Period Interest Included in Original Proposal
**Use Original Square Feet
***Assume 1/2% from Construction & TI's
****Does not include furnishings and move costs
Add .0005 percent to go from 20 to 25 year financing

Parking	\$7,000,000	7,000,000	7,000,000	7,000,000
Construction Period Interest		403,489	403,489	371,210
Total Costs to Finance	\$7,000,000	7,403,489	7,403,489	7,371,210
Required Debt Service 20 Yr	\$617,972	653,593	653,593	624,989
Operating Costs	\$125,000	125,000	125,000	125,000
Total Ongoing Costs	\$742,972	778,593	778,593	749,989
Equivalent Price/SF on Office Space	\$2.40	2.51	2.51	2.42
Required Monthly Revenue/Stall	\$203.67	213.43	213.43	205.58
Required Debt Service 25 Yr	\$559,715	591,978	591,978	562,140
Operating Costs	\$125,000	125,000	125,000	125,000
Total Ongoing Costs	\$684,715	718,978	718,978	687,140
Equivalent Price/SF on Office Space	\$2.21	2.32	2.32	2.22
Required Monthly Rental/Stall	\$187.70	196.54	196.54	188.36